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Stalking the wild DOT contractor

There is a contracting scandal brewing at the state Department of Transportation. The Providence Journal reported last month that, among many other similar cases, the state is paying \$102,858 each year for the services of a typist who is only paid \$38,181. The difference goes to profit and "overhead" of the contractor. Large parts of the agency's responsibilities are now handled by similar contractors, with similar markups, and it turns out that DOT no longer has any qualified bridge inspectors on its staff. Outraged, the Governor says he'll get to the bottom of this, and promises to investigate his own administration.

But what no one seems to be asking is why so much of DOT is run by contractors. The department spends almost \$36 million each year on contracted services, a third of its personnel budget. (Contractors were only about a fifth of its budget in 1997.) There's a reason why, and it means DOT is a bigger and more expensive mess than has already been reported, brought to you by Governors who tried to do everything they could think of to keep your taxes down — and in the process did more than they should.

To begin with, each year DOT receives hundreds of millions in federal highway money in grants. In order to receive this money, the state has to put up some matching dollars, a bit less than one state dollar for every four federal dollars we get. This year, we received \$272 million, which means the state match was around \$64 million. We borrowed \$40 million of that, which is standard practice around here, and has been every year since before Ed DiPrete was governor. To put it tactfully, other states don't do this. In other states, if they need to spend \$40 million every year



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to fix the roads, they just put that in the budget. Here, we borrow for it, so that it costs us less in the current year, but eventually costs us twice as much after the bonds have been repaid — with interest.

Ten years ago, then-Governor Lincoln Almond was also outraged, by DOT's practice of paying some employees' salaries with borrowed funds. Vowing to end the madness, he ordered that the practice be halted. But he didn't add the money into the budget to pay for those employees. DOT, faced with the order to stop paying salaries with borrowed money, but provided with little extra money to make up for the borrowed funds, started replacing its employees with contractors. The expense of contractors, you see, can be moved into the "capital" accounting column, or hidden under "supplies," while employees can only go under "personnel." In other words, having been ordered to make the problem go away, DOT only made it appear as if the problem went away, and set the stage for the contracting scandal now unfolding. So, about that \$102,858 typist? The real scandal is that we probably paid 20

percent of her 2007 cost with borrowed money, making her a \$125,000 typist by the time we pay back her cost — in the year 2037.

It's been ten years since Lincoln Almond pretended to face down DOT, and in that time, the agency has borrowed more than \$300 million (this does not count the special borrowing for moving Interstate 195 in Providence and a couple

of other big projects), and the debt service costs have risen, too. A big chunk of DOT debt was retired with money from the tobacco settlement suit in 2002, but even so, we paid \$36 million in debt service for DOT in fiscal year 2007 — and borrowed \$40 million. The hole gets deeper each year, and in fiscal year 2009, the interest payments will be about the same as the amount DOT borrows.

Now it's true that lots of people manage their finances this way, paying one credit card off with another. It's a perfectly common strategy, but it rarely ends well. In DOT, we have an agency that costs much more than it did in 1997, and does much less, since most of the new cost is debt service and contracting overhead. Finances are now so tight at the agency that the only way it could take on moving Interstate 195 or replacing the Sakonnet Bridge was to find a new and creative way to borrow still more money.

It would be easy to stop this problem, and we'd save a ton of money in the future, but to stop the borrowing will cost real money up front. Sadly, it's been years since we had a Governor brave enough to propose a fix like that.

It's hard to stay tactful about the fiscal mismanagement of DOT, but one thing is clear: the big fault doesn't lie with the agency. The fault lies with governors and legislatures who refused to be honest with us about the real cost of fixing our roads. They took the easy way out, and now we're going to be stuck with the bill.

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